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SUBJECT: ETHIOPIA: TELECOMMUNICATIONS SECTOR UPDATE - PART II of II - POLICY

SUMMARY

¶1. This is part two of a two part cable on the Ethiopian telecommunications sector. Part one (septel) covers current infrastructure and expansion plans while part two covers policy measures. Meetings with Ethiopian telecommunications officials reveal a telecommunications and information and communication technology (ICT) sector that languishes in a monopoly state. All Government of Ethiopia (GoE) sources stated that until universal rural connectivity is achieved, there will be no moves to liberalize the sector. Chinese technology is currently the overwhelming choice for telecommunications and ICT purchases due to lower price and vendor financing arrangements. END SUMMARY.

STRUCTURE - ETC, ETA, AND EICTDA

¶2. The GoE views telecommunications as a "public good" and thus it is, in their view, proper for the government to maintain monopoly control. Currently, the monopoly provider of land line telephone service, mobile telephone service, and internet service is the Ethiopian Telecommunications Corporation (ETC). ETC is fully owned by the GoE, falls under the Ministry of Transport and Communication (MOTC), and is overseen by a board of directors. ETC is regulated by the Ethiopian Telecommunications Authority (ETA). ETA was established as an independent regulator (separate from the service provider, ETC) and is responsible to MOTC.

¶3. Recognizing the need to promote information and communications technology (ICT), the GoE established the Ethiopian Information and Communication Technology Development Agency (EICTDA) in 2002. EICTDA is overseen by the Ministry of Capacity Building (MCB). EICTDA's Director General, Debretsion Gebramariam, is also the Chairman of the Board for ETC, a central committee member of the Tigrayan People's Liberation Front (TPLF), and a former Deputy Director of the National Intelligence and Security Service.

RURAL CONNECTIVITY IS THE KEY - BUT WHEN?

¶4. A pervasive theme in meetings with leaders of the ETC, ETA and EICTDA was that of providing universal coverage to rural communities. Ethiopia is overwhelmingly rural, with 85 percent of the population engaging in subsistence agriculture. Ethiopia's current policy is for the state to first provide universal coverage via either land line or fixed wireless service to each of 15,000 village (kebele) units. Universal coverage is defined by the GoE as having one phone within a 5 km walking distance. EICTDA Director General Debretsion Gebremariam stated that 7,500 kebeles have been connected, and completion of the project is expected within the next year. However, this completion date conflicts with what ETA estimates (2015) and what the Minister of Transport and Communication stated in press reports (2010). All parties commented

that private operators would likely focus only on wealthier urban areas at the expense of the rural poor. Therefore, private operators will not be allowed to enter the market until the poor are covered because, as Prime Minister Meles told the Financial Times in February, "private telephony is a license to print money in Africa" but providers would neglect the peasant majority.

AFTER RURAL CONNECTIVITY - WHAT NEXT?

¶5. All officials contacted reiterated that until universal rural is achieved, there will be no opening of the market to the private sector. When asked for predictions of what might happen after rural connectivity is complete, the most complete answer came from Debretsion. He stated that private sector involvement will consist of providing quality service. He insisted that the GoE policy would be for ETC to retain the sole backbone in the country and private operators may be able to purchase and re-sell bandwidth. He specifically ruled out the possibility of an independent operator installing their own infrastructure without even suggesting that there may be a time in the future when the installation of private infrastructure might be permitted.

SOURCING, A STRONG PREFERENCE FOR CHINA

¶6. Chinese companies, and Zhong Xing Telecommunication Equipment Company Limited (ZTE) in particular, have received the vast majority of orders from ETC for upgrading and expanding Ethiopia's telecommunications infrastructure in recent years, most recently a 478 million USD contract signed in September to provide additional GSM service and an approximately 200 million USD contract in April to upgrade Ethiopia's fiber optic backbone, expand mobile coverage

with CDMA service and expand fixed wireless coverage. Perhaps most significantly, ZTE along with fellow Chinese companies Huawei and China International Telecommunications Construction Corporation beat out eight other international companies including Ericcson, Nokia and Siemens in September 2006 for a 1.5 billion USD upgrade and expansion of mobile and fixed line services over four years. The Chinese consortium offered vendor financing in the form of a 500 million USD loan and 1.5 billion USD in short term trade credits.

¶7. While it is true that Chinese products carry a lower price than European or U.S. competitors, both ETC Managing Director Amare Amsalu and ETC Board Chairman Debretsion Gebremariam offered additional reasons for the popularity of Chinese goods and services. Debretsion stated that there are two criteria examined for purchase decisions: quality (desire for state of the art technology or at least competitive products) and price. He said that if Chinese companies do not provide quality products, they do not accept the bid regardless of price. Further, he stated that ZTE and other Chinese players are actually supplying European or U.S. products as a part of their package. He cited the use of U.S. routers in the recent mobile phone expansion as an example.

¶8. Amare had a much more detailed explanation for ETC's Chinese preference. Not only are Chinese products "almost as good," he argued, but he expressed a clear preference for the Chinese way of doing business over European or U.S. methods. He stated that European companies still come to Africa with a colonial mindset, and U.S. companies, while less rigid than Europeans, are only looking to make a profit. In contrast, he said that the Chinese companies are not only accountable to profitability, but to the image of their country. ZTE and other Chinese companies are a first choice because they are in Africa to promote the image of their country, are accountable to the government of China, and are transferring technology and know-how to Ethiopians.

COMMENT

¶9. The GoE and its state-owned telecom enterprises have extensive plans to expand telecommunications service, especially in the rural

areas. Based on conversations with telecom leaders, the sector will continue to be a monopoly or near-monopoly for the foreseeable future. The GoE's reluctance to liberalize the sector, however, may be hampering economic growth. While the position of the government that private actors may concentrate only on more profitable, urban customers may have merit, the strides made even in rural areas following market openings in neighboring countries such as Kenya cannot be ignored. As Ethiopia progresses in WTO accession negotiations, telecom liberalization is likely to be put on the table by member states. How GoE balances its mandate to provide universal rural connectivity with the need for more openness remains to be seen. Based on a combination of favorable financing, lower cost and cultural preference, it appears that Chinese companies are at a distinct advantage in Ethiopia's telecommunications sector. U.S. companies already find the arena difficult to enter, a condition that is unlikely to change in the future. Furthermore, the lack of reliable, high quality, and fast telecommunications and ICT service in Ethiopia risks diverting U.S. and foreign investment in other sectors to other countries with a more conducive business environment. Post will continue advocacy efforts to encourage the GoE to consider U.S. goods and services as it expands its telecommunications sector, but, unchanged, the prevailing statist ideology will continue to minimize opportunities for American companies. END COMMENT.